COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1693-02
Bill No.: HB 978
Subject: Energy; Environmental Protection; Housing; Revenue Dept.; Tax Credits
Type: Original
Date: April 6, 2009

Bill Summary: Would create a tax credit program for homes built using green build standards.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue *	$0	($23,103 to ($2,023,103)	($36,651 to $2,036,651)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**($23,103 to $2,023,103)**	**($36,651 to $2,036,651)**

*** Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	0	1	1
Total Estimated Net Effect on FTE	**0**	**1**	**1**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government *	**$0**	**$0**	**$0**

*** Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Economic Development** and the **Public Service Commission** assume this proposal would have no fiscal impact to their organizations.

Officials from the **Department of Revenue** (DOR) assume this proposal would create new tax credit program, which would reduce the amount of tax due and state revenues.

For tax years beginning on or after January 1, 2010, taxpayers would be allowed a credit for eligible costs at the following rates:

* $0.45 per square foot that meets NAHB or LEED-H Bronze Level or LEED-H Certified Level;
* $0.65 per square foot that meets the NAHB or LEED-H Silver Level;
* $0.90 per square foot that meets the NAHB or LEED-H Gold Level; or
* $1.15 per square foot that meets the NAHB Emerald or LEED-H Platinum Level

The credit could not exceed state tax liability and is not refundable but may be transferred, sold or assigned and could be carried back to any of the taxpayer's previous tax years or carried forward to any subsequent tax years. The credit would be capped at $2 million annually, and credits would be issued on a first-to-file, first-to-receive basis. DOR would create rules to implement the proposal.

ASSUMPTION (continued)

DOR officials stated that modifications would be required to individual and corporate income tax forms and to the MINITS, COINS, CAFE, and EDW systems.

DOR officials stated that Personal Tax would need one FTE Revenue Processing Technician I for every 4,000 credits claimed; Collections & Tax Assistance would need one FTE Tax Collection Technician I for every additional 24,000 contacts annually to the non-delinquent tax line; one FTE Revenue Processing Technician I for every additional 4,800 contacts annually to the field offices; and Corporate Tax would require one FTE Revenue Processing Technician I to handle the additional redemptions, return verification and correspondence related to the new credit, and one FTE Revenue Processing Technician I to evaluate the applications and approve the credits.

DOR officials provided an estimate of the cost to implement the proposal including five additional employees and the related equipment and expenditure amounts totaling $193,070 for FY 2010, $205,428 for FY 2011, and $211,591 for FY 2012.

Oversight notes that this program is capped at $2 million per year and that a claim for one new home with 2,000 square feet at the lowest eligible standard would be for a tax credit of (2,000 square feet x 45 cents per square foot) = $900. The $2 million annual cap would provide 2,222 tax credits; however, Oversight assumes that many tax credit applications would be for homes which meet a higher technical standard. Thus there would likely be fewer than 2,222 claims. Oversight assumes the program could be implemented with one additional FTE. If unanticipated additional costs are incurred or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

Oversight has, for fiscal note purposes only, changed the starting salary for the additional employee to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has adjusted the DOR estimate of equipment and expense costs in accordance with OA budget guidelines, and Oversight assumes that an additional employee could be accommodated in existing office space.

ASSUMPTION (continued)

Oversight notes that this proposal would become effective for construction or improvements on or after January 1, 2010 and result in claims for 2010 filed in January 2011, (FY 2011). For fiscal note purposes, Oversight will indicate a range of cost for tax credits from $0 (no successful applications) to $2 million (the program cap) for fiscal years 2011 and 2012, and will include cost for DOR for six months of FY 2011, and a full year for 2012.

DOR officials also provided this estimate of the IT cost to implement the proposal.

Officials from the Office of Administration, Information Technology Service Division (ITSD/DOR) estimate the IT portion of this request could be implemented using one FTE existing CIT III for two months for modifications to the MINITS system and three FTE existing CIT III for one month for modifications to the COINS, Café, and E-file systems. The total estimated cost is $22,205. ITSD/DOR assumes this proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

Oversight assumes that ITSD/DOR could implement this proposal with existing resources.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
Cost - Department of Revenue			
Salaries (1 FTE)	$0	($11,680)	($24,061)
Benefits	$0	($5,680)	($11,701)
Equipment and expense	$0	($5,743)	($889)
Totals	$0	($23,103)	($36,651)
Revenue reduction - tax credits *	$0	$0 to ($2,000,000)	$0 to ($2,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**$0**	**($23,103) to ($2,023103)**	**($36,651) to ($2,036,651)**
Estimated Net FTE Effect on General Revenue Fund	0	1	1

*** Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

FISCAL IMPACT - Local Government	FY 2010 (10 Mo.)	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which construct eligible homes or use the tax credits provided.

FISCAL DESCRIPTION

This proposal would create a tax credit program for homes built using green build standards.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Department of Economic Development
Department of Revenue
Public Service Commission

Mickey Wilson

Mickey Wilson, CPA
Director
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